THE IMPACT OF GLOBALISATION ON THE CONSTRUCTION INDUSTRIES OF DEVELOPING COUNTRIES

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ABSTRACT: The world has been recently exposed to phenomenal global changes in different fields including economy, technology and communications. The term 'globalisation' has been used in connection with these changes and their consequences.

The aim of this paper is to understand the term 'globalisation' and to study its implications for the world economy in general and the construction industry (CI) in developing countries in particular. Its objectives include investigating the impacts of the changes imposed by globalisation especially on the CI, discussing the dilemma between the ‘advantages’ and ‘threats’ of globalisation and identifying the trends of globalisation in intercultural and global society contexts.

These will be briefly discussed mainly by exploring the literature and throwing light on the views of people who investigated and wrote in this field.

The paper ends with conclusions and recommendations, stressing the need for managing both the advantages and disadvantages of globalisation to the benefit of the nations, especially in the developing countries.

Keywords- construction industry, developing countries, information technology, globalization

1. INTRODUCTION

Over the last decades the world has witnessed major transformation in the global economy, in addition to revolution in information technology and communication; these come under the term 'Globalisation'.

In this paper the literature is explored for information on and analysis of globalisation in general, with more focus on the economy in the developing countries. Special attention is given to the Construction Industry (CI).

The first part of the paper discusses globalisation in its general terms. It highlights definitions and views of different researchers in this regard. The interaction of globalisation with the various life aspects cannot be overlooked. It has an obvious impact on society, culture and customs. It imposes social and cultural changes on the different societies and gives access to the various nations to know more about each other's culture, religions and traditions (Kluver, 2000). Globalisation, unlike localisation, does not give superiority to a national or local culture. Understanding 'culture' in the new world context is salient. This also highlights the relation of globalisation with other terms such as modernisation, informatisation and internationalisation.

The second part of the paper summarizes some of the advantages and adverse impacts of 'globalisation', highlighting its effect on different aspects including labour markets.

The penultimate part discusses the likelihood for the different world countries, particularly the developing countries, to access the global economic markets and to benefit from globalisation. It tackles issues like incapability of developing countries to improve their economy, complexity and novelty of infrastructure projects in developing countries, foreign investments, international funds, liberated movement of goods, ideas, capital and technology transfer. It underscores the role of the international funding aids in financing projects in developing countries and in creating opportunities for developing countries to access international markets and acquire advanced technology.

The last part of the paper deals with the impact of globalisation on the CI in developing countries. Its impact on the sustainability of construction firms at both the industry and organization levels, the views of researchers towards the role that these countries will play in future and the opposition of the construction firms in these countries to foreign interference in their industry. The paper concludes that further investigation is needed in relation to the impact of globalisation in the field of CI, particularly in developing countries.

2. GLOBALISATION IN GENERAL

The World has recently witnessed a radical change in the international economy, including an increase in global trade accompanied by significant advancements in information technology (Burki, 2002). Global capitalism had become known from the end of the nineteenth century, and appeared emphatically in the end of the twentieth century (Sachs and Warner, 1995). The most significant economic integration among nations took place in the period between 1970 and 1995, more increasingly between 1970s and 1980s (Vandenbroucke, 1998).

Globalisation arose as a consequence of the changes in business economy worldwide, which took different shapes such as new huge markets and trade liberalisation in addition to the advancement in technology and communication (eLSEwise, 1998). Globalisation has led to growth of the world trade and open economy by the time the growth of international trade became fast and obvious (after the Second World War) (Khan, 2004).

The literature highlights different definitions for the term 'globalisation'. According to Kluver (2000) "*Globalisation refers primarily to the ways in which economic and industrial institutions (such as industries or corporations) interact in various locations throughout the world, with primacy given to no specific geographic location*". The International Monetary Fund (IMF) defined globalisation as "*the growing economic interdependence of countries worldwide through the increasing volume and variety of cross-border transactions in goods and services and of international capital flows, and also through the more rapid and widespread diffusion of technology*" (Khan, 2004). Friedman (1999) defined globalisation as *"the world integration of finance markets, nation states, and technologies within a free- market capitalism on a scale never before experienced".*

Globalisation covers several fields including international trade, communication and free cross-border movement of people, goods, capital and technology (Khan, 2004). Globalisation deals with different issues, including economy, mass media and mass communication, which expedite the distribution of cultural, political and commercial information (Vandenbroucke, 1998). The latest improvement in information and communication technology facilitated connections among the different world countries (Ngowi and Lema, 2002).

Globalisation concerns international relations, global markets, and the augmentation of the power of individuals in relation to the power of nations (Friedman, 1999). Hirst and Thompson (1996) wrote that the global economy operates in a world with no national cultures, domestic economies or even borders; in addition, the global processes has determined the recent economic globalisation and the associated social impacts. Glyn and Sutcliffe (1992) noted that "*macro-economic unification represents the idea that the world is now really a single economy in the* *macro-economic sense. That means that the main determinants of income and employment can now only be understood at a global and no longer a national level*." The world is a "*global marketplace*" with different cultures and economic interdependence where the political boundaries are becoming irrelevant (Ngowi and Lema, 2002). The world is a "*global village*" that works by utilizing international resources rather than localized ones (Langford, 2004). Globalisation calls for a 'global culture' where accord of markets is acknowledged without ignoring the variety in cultures (Fletcher and Vyakarnam, 1999).

In literature the term 'globalisation' is sometimes used in connection with other terms such as modernisation, informatisation and internationalisation. The interaction between globalisation and modernisation is quite obvious in a way that globalisation entails modernisation (Ahmad, 2001). The modernization and world system theories imply that globalisation aims to combine different societies into a large, well-built, socially, economically and technologically integrated organisation; the integration process should be open for the involvement of all nations to enable them to keep their individual national characters and cultures (Ahmad, 2001).

Kluver (2000) defines 'informatisation' as "*the process primarily by which information technologies, such as the world-wide web and other communication technologies, have transformed economic and social relations to such an extent that cultural and economic barriers are minimized*"; he also referred to 'informatisation' as "*the process whereby information and communication technologies shape cultural and civic discourse*". Although 'globalisation' and 'informatisation' differ, they still meet at a certain point at which their social, political, economic, and cultural impacts intersect (Kluver, 2000).

Fletcher and Vyakarnam (1999) underscored the term 'internalisation' and other related common terms such as ‘borderless world’, ‘shrinking world’ and ‘global village’, which indicate interdependencies between the world countries; they wrote "*Internationalization is constituted by a variety of transactions and exchanges that are carried out across national borders to satisfy the needs of individuals, customers and organizations*".

3. ADVANTAGES AND ADVERSE EFFECTS OF GLOBALISATION

Globalisation has implications for different fields, in addition to the economic field, including society, culture and customs. While some people see the positive side of globalisation, some look at it as a source for generating poverty and destroying the environment and others believe that it produces a negative impact on national interests (Kluver, 2000). There is fear of globalisation which could be related to "*the process of human civilization*" and "*unconfirmed pessimism about the future*" (Ngowi and Lema, 2002).

Kluver (2000) further wrote that Globalisation has added international and global awareness to certain issues like economy, culture, politics, human rights, the workers rights, the environment, information technology and telecommunications and has encouraged local and economic development. Ghesquiere (2004) is of the opinion that globalisation has marked influence on information and communication technologies, which led to free trade and better market economies that are capable of attracting new investments and have resulted in creating jobs, improving productivity, reducing the number of people living in poverty, and led to general economic growth. Rodrik (1997) noted facilitating trade and investments worldwide as an advantage for globalisation. Globalisation leads to economic growth, which improves living standards (Lukas, 2000). It results in competition and progress in world trade, and therefore often reduces the prices of goods and services worldwide (Murray and Appiah-Baiden, 2000).

Kluver (2000) also cited the December, 1999 riots at the World Trade Organization (WTO) as an example of those who oppose globalisation; he added that globalisation has empowered international terrorism and hackers to attack others. Globalisation creates arguments within and between nations with regard to customs and other social aspects (Ngowi and Lema, 2002). The United Nations Development Project (UNDP, 1999) viewed globalisation as a source of broadening the gap between the wealthy and deprived countries (Kluver, 2000). Globalisation and informatisation cause contradictions between global and local economies, in addition to the ambiguous effect on traditions and cultures (Kluver, 2000). Ahmad (2001) advised to deal with globalisation carefully as it could have negative impacts on local economy as well as opposition to cultural aspects.

Globalisation has affected labour markets (Khan, 2004). Globalisation of labour is limited; while there is a global skilled labour market, the medium-skilled and unskilled labour markets are restricted within national boundaries (Vandenbroucke, 1998). The international trade creates more profitable industries that demand skilled labour. Wages are rising up and unemployment is getting less among skilled labour who managed to acquire skills in new technologies in different developing and advanced countries. In addition, the advancement in transport and communication has caused a shift of labour towards the service sector. Nevertheless, most workers see globalisation as a threat; it impacts on their work conditions by creating insecure uncontrollable work atmospheres. The restriction on the free movement of low skilled labour across borders adds to the threats; these restrictions minimize chances of improving standards of living, acquiring new useful skills and therefore negatively affect the development of human resources in developing countries (Khan, 2004).

4. GLOBALISATION AND THE DEVELOPING WORLD

Vandenbroucke (1998) described globalisation on a worldwide level as "*worldwide globalisation*" where he used the US economy as an example, and globalisation on a regional level as "*regional globalisation*" which he illustrated using the European economies. Worldwide, globalisation moved distinctly during the 1970s, in the wake of the two oil shocks. Regional trading arrangements including formation of regional economic blocs, especially in developing countries, continue to exist as a response to the adverse projection of the world trade; the developing countries focused on protecting their domestic industries and minimizing imports (Khan, 2004). Ghesquiere (2004) advised countries to become involved and therefore benefit from trade liberalisation among countries, rather than to limit themselves to regional free trade agreements.

Globalisation is directed by the industrialized countries; however, its recent expansion encouraged all nations to be involved in it (Ahmad, 2001). A remarkable move in the developing countries, associated with a movement towards trade liberalisation, was in the late 1980s. The developed countries gained tremendously from globalisation and utilisation of information and technology in the economic field (Kluver, 2000). The world system theorists are of the opinion that economic integration does not release the developing countries from their dependency status, but encourages the industrialized countries to keep utilising their own markets and resources (Ahmad, 2001). Langford (2004) supported this opinion by highlighting the main aim of some available international agencies, such as General Agreement on Tariffs and Trade (GATT), General Agreement of Trade and Services (GATS), World Trade Organization (WTO), European Union (EU) and North American Free Trade Area (NAFTA); he believed that these agencies work mainly for the advantage of the developed world.

The developing countries work on removing barriers, reducing tariffs and securing free movement among member states, but at the same time, give priority to their industrial output and employment (Khan, 2004). Ngowi and Lema (2002) are of the opinion that developing countries are incapable of improving their economy; however, globalisation serves these countries through foreign contribution especially in major projects where novelty and complexity are involved. In this context, Ofori (2000) confirmed that many of the public construction projects in developing countries are large, complex, entail novelty and therefore cannot be undertaken by local industries. He believed that the developing countries are not equipped to play considerable role in privatised projects as they do not have the funds, technical and managerial capabilities; they may not even be able to exploit the acquired expertise and technology that they may gain from globalisation. Ofori (2000) further encouraged the developing countries to form "*cross border strategic alliances*" with each other in order to progress their construction activities and to adopt more developed technology. In a number of developing countries and as a positive initiative towards globalisation, governments instigated certain polices including the establishment of worldwide relationships with associates in the CI such as suppliers, designers and others (Ngowi and Lema, 2002).

Globalisation encourages foreign investments in developing countries, and consequently enhances the economy through creating jobs, introducing new technologies and improving the infrastructure (Lukas, 2000). Globalisation offers a good opportunity for the developing countries to implement public projects with competitive prices by facilitating access to international funds, international firms and developed technology. This assists in increasing work opportunities for local firms and easing technology transfer to these countries (Ofori, 2000). Globalisation opens markets for the products of the domestic business in developing countries, and facilitates access to cheaper inputs (Lukas, 2000).

Economists emphasize the benefits of globalisation including liberated movement of goods, ideas and capital and recommend the ignoring of its negatives such as the social tension it may create (Rodrik (1997). Ghesquiere (2004) encouraged governments to instigate supporting policies and strategies of integration with the world economy in order to help people to get the best from globalisation and to avoid its risks and costs. To support his opinion he cited South Korea and Chile among countries which managed to benefit from globalisation and to raise the income of their people.

Vandenbroucke (1998) wrote about the role of the Foreign Direct Investment (FDI) and the financial markets, which have, since the 1950s, resulted in emergent interdependence in the developing countries. They further explained that the movement of funds across borders has been encouraged and the restrictions on international flow of capital have been reduced since the 1970s.

Lukas (2000) stressed that the tendency of a number of developing countries to adopt an open-economy approach has improved human welfare in these countries. He cited two cases from developing countries in order to underscore the important role of globalisation in reducing poverty and in achieving economic progress. On one hand, the East Asian countries have had a successful experience in globalisation through free access to the developed world, growth of capitalism and opening economies to international trade. The people of sub-Saharan Africa, on the other hand, who are known for their closed economies, low share of world trade, reliance on foreign aid, and inability of their governments to carry out market improvements, are in an unlimited state of poverty.

Ghesquiere (2004) cited India as a developing country that has adopted "*inward-oriented policies*" to improve its industry. These polices entail stressing the importance of developing the heavy industry in certain "*strategic areas*", while restraining the development of the private sector. In its plans India focused on the necessity of obtaining skills in order to face international competition. The implementation of these policies and plans led to higher economic growth. However, the experience of some other countries in implementing an "*inward-looking strategy*" was not successful; it resulted in staggered economic growth and financial deficits.

5. THE IMPACT OF GLOBALISATION ON THE CONSTRUCTION INDUSTRY IN DEVELOPING COUNTRIES

In globalisation the "*international construction market*" is open for firms from both developing and developed countries. The exports of construction activities are also available from all countries, though the biggest contribution is from the developed ones (Ofori, 2000). The concentration of economic wealth and the global construction in the developed markets impede the improvement of economies in the developing countries; great attention has been focused on the role of construction in development though more attention should be given to the nature of construction activities in the developing countries (Wells, 2004).

Globalisation impacts on the sustainability of construction firms in developing countries at both the industry and organization levels (Ngowi and Lema, 2002). Fletcher and Vyakarnam (1999) believed that the main barriers and also opportunities are related to market demand, regulations, language, resources, management skills, timing, experience, firm age, and decision-making policies. They highlighted the barriers and the available opportunities for small firms to move towards internalisation. In this regard they emphasised various views concerning: obstacles facing small firms to expand through internalization (Barkema et al. 1996 and Robertson, 1992), and the opportunities to overwhelm such obstacles (cf. Misenbock, 1988; Aaby & Slater, 1989, Westhead, 1993; Barkema et al., 1996, Dichtl et al. 1990, Cannon & Willis, 1983, Czinkota & Johnson, 1982 Smallbone & Wyer, 1984, Morgan, 1997, Solberg, 1997).

In order to minimize the adverse effects of globalisation, Khan (2004) advised developing countries to adapt certain polices including developing the local industry, maintaining good governance, keeping performance monitoring systems, training labour to cope with the challenges of an open economy and acquiring new technological skills.

Researchers who are studying the CI in developing countries are optimistic towards the efficient role that these countries will play in future (Ofori, 2000). Kangari (2002) expected some changes in relation to the geographical area of business for the construction firms, in addition to the methods and techniques of implementation of projects. He believed that technology has and will continue to improve which will therefore enhance the efficiency, performance and consequently the productivity of firms. He further elaborated that changes in features such as in human behaviour and life style, enable construction firms to provide new customer services.

Generally, the CI in developing countries might benefit from foreign competitors; however, the construction firms in these countries are not in favour of having foreign interference in their industry. The CI in these countries have sought their government's assistance in protecting local markets by discouraging foreigners from dominating their own market through imposing trade barriers, quotas, duties and laws on the implementation of construction projects (Ngowi and Lema, 2002). However, the local businesses in developing countries are not capable of carrying out infrastructure works, and therefore governments in some countries rely on foreign contractors for this type of work (Ofori, 2000). Although the foreign contractors use local labour, governments have imposed certain polices to guarantee a certain level of involvement for the local businesses by giving preference to local contractors whenever they prove to be capable (Ofori, 2000). Assessment of the development of the CI in a number of Asian countries revealed that the involvement of foreign construction firms has been recently growing almost in all of these countries (Ofori, 2000).

Singapore and Botswana are examples of countries where governments have encouraged local construction firms, who were given preference, to work in joint ventures with foreign contractors aiming to benefit from the technology transfer through the implementation of public projects (Govender and Watermeyer, 2000). Ofori (1991) expressed his concerns regarding effective transfer of technology, and believed that joint ventures do not necessarily conclude such aimed results; He cited joint venture agreements in Ghana and training schemes in Singapore to support his argument.

Ofori (2000) referred to observations made by several authors on the subject of the involvement of international contractors in public projects in developing countries. Among these are: Turin (1973) who believed that foreign contractors are the most capable of undertaking 'international-large' projects; Edmonds and Miles (1984) and the World Bank (1984) who realized that 'international' contractors are known to be among large construction firms in developing countries. Ofori further alluded to researchers like Turin (1973) and Drewer (1980) who believed that local contractors in developing countries should gain experience from international construction firms involved in public projects in their countries and gradually work independently, while Moavenzadeh (1978) is of the opinion that the contribution of foreign companies in large complex projects is and will remain essential.

6. CONCLUSION

This paper has explained the term 'globalisation' and highlighted the advantages and threats of this phenomenon. The literature has been explored to form an impression of the impact of globalisation on the different life aspects, with a focus on the world economy. Special attention has been given to literature relating to the construction industry (CI) in developing countries. The growth of globalization in all sectors and particular in construction has been reviewed and the following key issues have been identified:

- The globalization of industry and commerce:
    - can be defined as the means by which economic and industrial institutions interact
    - results in both positive and negative consequences
    - encourages cross-border movement of people, goods, and capital
    - reflects the relative economic and political power of nations
    - has been promoted by the growth of communication technologies
    - supports and develops technology transfer flows

- For developing countries, globalization:
    - has significantly encouraged overseas investment
    - can be a destabilising force, particularly in labour markets.
    - has not so far relieved their dependency status but may have improved living standards for some
    - appears to still work mainly to the advantage of the developed world

- For the construction industries of developing countries, globalization:
    - plays a significant role in the development process
    - enhances the industry performance by the presence of foreign contractors
    - presents joint ventures as the most appropriate mode of operation particularly for major projects for which international contractors alone have the capability and capacity

The literature recommended that business organisations, particularly those operating in the CI of developing countries, should continuously consider and evaluate the opportunities and threats provided by globalization, together with the available strategies, in order to exploit opportunities and avoid the threats and negative consequences of globalisation. It also suggested that further investigation is needed in relation with the impact of globalization in the field of CI, particularly in developing countries.

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